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Abacus Australian Mutuals

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Justin Douglas
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Financial System Division
The Treasury
Langton Crescent
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By email: fsleviesreview@treasury.gov.au

Dear Justin

Proposed Financial Sector Levies for 2013-14

Abacus welcomes the opportunity to comment on Treasury and APRA's joint discussion paper regarding proposed financial sector levies for 2013-14.

Abacus is the industry body for credit unions, mutual building societies and mutual banks and, on behalf of Friendly Societies of Australia, friendly societies. Collectively, the institutions we represent have around $85 billion in assets and serve more than 5.3 million customers. The customer owned model is the proven alternative to the listed model, delivering competition, choice, and consistently market leading levels of customer satisfaction.

Abacus is concerned that the consultation paper:
- is proposing a dramatic increase in levy collections imposed on the ADI sector, and that the distribution of these additional costs is unfairly skewed towards smaller ADIs; and
- provides little transparency about the additional ASIC activities that are the main driver behind the increase in ADI levies.

We propose some changes to address these issues.

Consultation

Abacus again notes that the period of consultation for this process is particularly tight. The consultation paper was released after close of business on Friday 31 May, leaving stakeholders only nine working days to review the paper and provide feedback.

Inadequate consultation timeframes is a recurring issue with the annual levies reviews. In recent years, the period of consultation has averaged roughly two weeks, though it has been as short as seven business days. The table below sets out the consultation periods for consideration of the APRA levy over the past four financial years.

Year	Opened	Closed	Consultation Period
2009-10	10 June	19 June	7 working days
2010-11	27 May	11 June	11 working days

2011-12	18 May	1 June	10 working days
2012-13	1 June	15 June	10 working days

We note that the approach Treasury and APRA have taken to the levy consultation process is inconsistent with the Government's own guidelines.

One of the "key principles" of the Government's Cost Recovery Guidelines is that "Agencies with significant cost recovery arrangements should ensure that they undertake appropriate stakeholder consultation..."[1] In addition, "timeliness" is one of the seven Consultation Principles set out in the Australian Government Consultation Requirements, where it is stated that "Throughout the consultation process stakeholders should be given sufficient time to provide considered responses."[2] While neither of these documents prescribes a minimum consultation period, we would argue that in the context of setting APRA levies, a two week period is not "appropriate," and that it certainly does not allow "sufficient time to provide considered responses."

While we appreciate that the Budget process is a constraint on the release of the annual consultation paper, it is unclear why the paper cannot be released in the days immediately following the Budget. A Government commitment to release the consultation paper by the end of Budget week would ensure that stakeholders were given sufficient opportunity to comment.

ADI Levies

Abacus is concerned that the consultation paper is proposing a dramatic increase in levy collections imposed on the ADI sector, and that the distribution of these additional costs is unfairly skewed towards smaller ADIs.

The magnitude of the levy increase

The consultation paper proposes increasing the levies collected from the ADI sector from $50.3 to $61.3 million, an increase of $11.0 million or 22%. The increase has been driven by an above inflation increase in APRA's costs, and a dramatic jump in ASIC's costs.

We note that the APRA levies proposed to be collected from ADIs this year will be $49.1 million, an increase of 4.7% on last year's levy of $46.9 million.[3] In explaining the increase in APRA's costs, the consultation paper notes that APRA has maintained a heightened level of supervisory activity in recent years, and that APRA expects to continue at this same tempo in 2013-14. In addition, APRA's strategic objectives remain unchanged from 2012-13.[4] It is somewhat surprising that a "no change" approach from the regulator would result in such a large increase in costs.

This is consistent with a longer term trend of APRA's collections from the ADI sector increasing more quickly than inflation. Since 2006-07, collections from the ADI sector

[1] Dept. of Finance and Administration, *Australian Government Cost Recovery Guidelines,* July 2005, p. 3.
[2] see: http://www.finance.gov.au/obpr/consultation/gov-consultation.html
[3] Treasury & APRA, *Financial industry levies for 2012-13,* p. 8.
[4] ibid., p. 3.

have increased from $29.9 million to $49.1 million, an average annual increase of more than 7%. It is somewhat surprising that APRA's cost have increased so significantly over this period, especially given the implementation of cost reductions in more recent years through the efficiency dividend.

The levies collected from the ADI sector to meet ASIC's costs have almost quadrupled from $3.4 million in 2012-13[5] to $12.2 million in 2013-14. Little information is provided in the consultation paper for the drivers behind this cost increase. The paper states that the reason for the overall increase in ASIC costs from $20.9 million to $32.2 million is new policy measures announced in the 2013-14 Budget.

Unfortunately, the paper provides little information about the actual Budget measures which have increased ASIC's costs by $11.3 million. While the paper lists three of these measures, (with a total cost of $5.3 million), there is no information about the remaining $6.0 million increase. Interestingly, the 2013-14 Budget papers and the Portfolio Budget Statements for APRA and ASIC also contain no further detail in this regard.

Given that the increase in ASIC's costs is the main driver behind the increase in ADI levies in 2013-14, it is concerning that so little transparency about the additional ASIC activities is provided in the consultation paper.

In the absence of any information about this additional $6.0 million, it is impossible for stakeholders to assess the appropriateness of the proposed expenditure. We therefore believe that this component of the levy increase should not be approved at this stage. The Government should consult separately on this aspect once it is in a position to share information with stakeholders explaining what the additional funding will be used for. Stakeholders are unable to comment on the proposal in the absence of this information, and it is unreasonable for the Government to approve a levy increase without first providing stakeholders with an opportunity to comment.

More broadly, we note that historically, collections of ASIC costs via the APRA levy have been limited to "providing certain market integrity and consumer protection functions."[6] It is unclear whether the additional ASIC expenditures proposed go beyond this.

The distribution of the levy increase

The consultation paper proposes increasing the unrestricted levy component by around 37% for all ADIs. However, the restricted component of the levy will increase by around 20% for ADIs paying less than the maximum cap (i.e. customer owned ADIs), while only increasing by 11% for those paying the maximum cap (i.e. the "Big 4" banks).

Abacus is concerned that the increase in the restricted component falls disproportionately on smaller ADIs. The 2009 levy review conducted by Treasury and APRA recognised this issue, and found that where the maximum cap is not increased by a sufficient amount, "an increase in funding requirements for the regulators, would have

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[5] ibid., p. 8.

[6] Treasury & APRA, *Proposed financial industry levies for 2013-14,* June 2013, p. 2.

a disproportional impact on small to medium sized entities."[7] Distributing the levy increase in this fashion implies that APRA's supervisory efforts have shifted away from the largest ADIs and towards smaller ADIs over the past year. In fact, the opposite is the case, especially given that APRA has flagged publicly that the largest ADIs will face more intensive supervision due to their systemically important status.

We therefore believe that the maximum cap should at least be increased to the point where the percentage increase in the maximum cap matches the percentage increase in the restricted levy rate.

Turning to the unrestricted component, the consultation paper notes that, in the ADI space, APRA's policy focus this year will be directed towards: "implementing the new global bank liquidity framework in Australia, on finalising a new prudential framework for conglomerate groups and a revised framework for securitisation."[8]

We note that many of the policy initiatives currently being pursued are almost solely for the benefit of the largest ADIs. For example, this year the unrestricted component of the levy is being increased by $3.2 million to finance costs associated with the implementation of OTC derivative reforms. While OTC derivatives are used extensively by the largest banks, they are used by very few of our members. Despite this, the costs will be recovered through an increase in the unrestricted component of the levy, a burden which will be borne by all ADIs. Given the focus of this work is on the largest ADIs, we believe it would be appropriate for these costs to be recovered solely from the largest ADIs, rather than from the whole ADI sector. This approach would be consistent with the general principles of cost recovery. Such an outcome could be achieved by allocating the $3.2 million to the restricted component of the levies, and then increasing the maximum cap by a proportionate amount which would see the full $3.2 million collected from those ADIs paying the maximum levy.

Customer owned ADIs are already disadvantaged by the current regulatory regime in relation to access to capital and taxation. We urge the Government not to further disadvantage the sector through inequitable increases in their levies.

Friendly Society Levies

The consultation paper proposes that levies for the largest life insurers increase by around 3.4%, while levies for smaller life insurers and friendly societies would be increased by more than twice this amount (7.8%).

Such an inequitable proposal is of significant concern, especially given that smaller life insurers picked up the entirety of the sector's levy increase in 2012-13, with levies for the small end increasing by 4.3% while levies for the largest life insurers actually fell.

It is unclear why the consultation paper is proposing such a skewed distribution. Certainly the paper makes no mention of a change in APRA's focus, noting that "In 2013-14, APRA will continue its focus on the capital adequacy of life insurers and

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[7] Treasury & APRA, *Report of the Review of Financial Sector Levies,* June 2009, p. 6.

[8] Treasury & APRA, *Proposed financial industry levies for 2013-14,* June 2013, p. 3.

friendly societies given the continued volatility in investment markets and the fundamental changes to life insurance capital standards now in place."[9]

In the absence of any rationale for the change in the levy distribution, we believe that the rates should be adjusted to ensure that the percentage increase borne by friendly societies is no greater than the percentage increase imposed on the largest life insurers.

Please contact me on (02) 8035 8448 or Micah Green, Senior Policy Adviser, on (02) 8035 8447 to discuss any aspect of our submission.

Yours sincerely

LUKE LAWLER
Senior Manager, Public Affairs

[9] ibid., p. 13.